

**ATSCO HOLDINGS CORP.
c/o P&F INDUSTRIES, INC.
445 Broadhollow Road, Suite 100
Melville, New York 11747**

October 16, 2014

Via Email

Rick Sabath (rsabath@quantarus.com)

Dear Rick:

Please accept this letter and its attachments as the Inventory Acknowledgment pursuant to Section 2.3.2.1. of the Asset Purchase Agreement, dated August 13, 2014, between ATSCO HOLDINGS CORP., HY-TECH MACHINE, INC., AIR TOOL SERVICE COMPANY, and Rick Sabath.

Completion of the inventory rollback has been extremely challenging and time consuming given our frequent discovery of deficient inventory post-closing. As we are sure you realize, these inventory valuation issues call into question the stated value of such items with respect to GAAP and the overall accuracy of the financial statements provided to us in due diligence.

The attached files detail the inventory rolled back to the effective date of the transaction. You will note that we applied a reserve to the total inventory valuation. By way of summary the reserve relates to the following:

(1) Per discussion with Michigan Pneumatic (MP), the ATA grinder inventory, which totals \$93,313, would require such substantial modification to be saleable that this inventory is deemed to have no value.

(2) Despite having a recorded book value of \$12,550.70, per MP there is no market for the below two tools and they too are valueless.

- SKU.2902 AS-88 – 1 qty @ \$6,813.04 = \$6,813.04
- SKU 2903 AS-44 – 1 qty @ \$5,737.66 = \$5,737.66

(3) Certain TorcUp product parts are unusable and non-conforming due to significant leakage of coating across threads. Total estimated amounts:

- 70000-raptor mtr assembly \$5,557.71 61 pcs to be scrapped

• 222-RP2038-planet gear	\$ 227.04	172 pcs to be scrapped
• 224-RP2038-gear	\$ 108.27	27 pcs to be scrapped
• 2931-RAPTOR-61	\$3,476.88	18 pcs to be scrapped
• 90A-RP	<u>\$9,319.00</u>	175 pcs to be scrapped
Total identified to date:	\$18,688.90	

(4) Cost of labor will need to be incurred to re-work the following parts to make them usable:

• 2931-RAPOR-61 11 pcs need re-work -	\$1,100
• Remaining Torcup parts estimated re-work	<u>\$ 500</u>
Total:	\$1,600

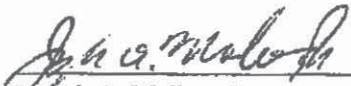
Additionally, there has been an accounts receivable write off of Columbus Castings in the amount of \$27,082.53. Columbus Castings informed us that we should not expect any payment.

In conducting our review of the inventory, we have relied on your representations and warranties in the Purchase Agreement, including the representations and warranties in Section 3.13 that the Inventory consists of a quality and quantity usable, and with respect to finished goods, saleable, in the ordinary course of business. Our review of the inventory is still ongoing. We reserve our right to bring additional claims if we have further reason to believe your representations and warranties are inaccurate. As of today, we believe the financial impact of the items referred to above is:

Inventory Adjustment	\$126,152.60
Account Receivable Adjustment	<u>\$ 27,082.53</u>
Total:	\$153,235.13

We look forward to hearing back from you at your earliest convenience so that we can resolve these matters promptly

ATSCO HOLDINGS CORP.

By: 
 Joseph A. Molino, Jr.
 Vice President

cc: Tad Cook (tad@cooksadorf.com)